

## **Growth willingness and market orientation as antecedents of brand orientation**

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### **Abstract**

The objective of this study is to examine how growth willingness and market orientation affect brand orientation in the context of small and medium-sized enterprises (SMEs). An online questionnaire was sent out to 4502 SMEs in Finland and 492 effective responses were received. A model with hypotheses of the relationships between the constructs was built. The results of the structural equation model (SEM) suggest that customer orientation, followed by interfunctional coordination, has the strongest effect on brand orientation, while competitor orientation has a non-significant effect. Both capital adequacy and expansion growth intention have significant effect on the three different elements of market orientation. Furthermore, expansion growth intention has significant effect on brand orientation while capital adequacy does not affect on brand orientation.

**Keywords:** Market orientation, brand orientation, growth willingness, SMEs

# Growth willingness and market orientation as antecedents of brand orientation

## Introduction

The position and importance of brands as part of business activities can be examined through brand orientation. Conceptually brand orientation may be understood as “an approach in which the processes of the organization revolve around the creation, development and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands” (Urde 1999). However, academic literature on brand orientation is scarce. Wong and Merrilees (2008) investigated the relationship between brand orientation and performance. According to their results brand orientation has an indirect influence on the financial performance of a firm. In their study brand barriers, such as the lack of resources and capabilities have a negative influence on brand orientation and, consequently on brand performance and, further on firm performance (Wong and Merrilees 2008).

While interest in brand orientation has just began to increase in marketing literature, the research of market orientation is already multifaceted. The effect of market orientation on firm performance has been studied from many perspectives. According to the summary of González-Benito and González-Benito (2005) the relationship of the two has been examined, for example, in various geographical, economic and political scenarios, in different markets and between firms of different industries and sizes. It has been stated that market orientation helps a firm to create superior value for customers and, consequently, achieve superior competitive advantage and above-normal market performance (Narver and Slater 1990). According to Narver and Slater (1990) market orientation consists of three elements, namely customer orientation, competitor orientation and interfunctional coordination. The first two elements include the activities relating to gathering market information and sharing it throughout the organization and the last one refers to the organization-wide creation of value to customers based on the acquired information. In studies, empirical evidence has been found to support that these three elements are focal components of market orientation (e.g. Gray *et al.* 1998; Low, Chapman, Sloan 2007).

Reid *et al.* (2005) have examined the conceptual relationship between integrated marketing communication, brand orientation and market orientation. According to them higher level of market orientation leads higher level of brand orientation. Furthermore, they suggest that the principal link between the two concepts is the customer since brand orientation provides a means of translating the long-term objectives of market orientation into a set of activities. In SMEs the abilities, motivations and goals of the owner-manager greatly affect the decision to enlarge or to maintain the firm size they are comfortable with (Walker and Brown 2004). Empirical studies have shown that they tend to have various business goals, many of which may have nothing to do with growth (Greenbank 2001). In this study we examine how different growth goals are related to market orientation and brand orientation. In the examination of growth willingness we used a combination of growth measures that are commonly used in prior studies. Four of the measures related to the expansion of business operations, namely the increase in turnover, in market share and in number of customers and the expansion of market area. Thus, they were termed as measures of *expansion growth*. Two other measures, namely increase in ROI and in equity ratio, related to profitability and were named as *capital adequacy*.

In SME context both brand orientation and market orientation are still relatively little researched concepts. However, it has been shown that market orientation framework fits also SMEs (Blankson, Motwani and Levenburg 2006) and that it enhances small firm performance (Pelham 2000; Megicks and Warnaby 2008). With regard to brand orientation, classification of brand orientation typologies for SMEs have been presented (Wong and Merrilees 2005) and it has been suggested that brand and reputation building become key resources in the long run also in SMEs (Abimbola and Wallaster 2007). The purpose of this paper is to examine how different growth goals, namely capital adequacy and growth willingness affect market orientation and brand orientation in the context of small and medium-sized enterprises (SMEs).

### **Theoretical background and hypotheses development**

According to the theory of planned behaviour (TPB), personal attitudes influence intentions and through them behaviour (Ajzen 1991). Individuals seem to acquire automatically an attitude toward behaviour, because a belief connects the behaviour to a particular outcome that is already assessed as positive or negative (Veciana, Aponte and Urbano 2005). It is also suggested that entrepreneurs base their growth willingness on the assessment of the consequences of growth (Davidsson 1989). Based on the attitudes of the outcomes they make a decision of the desirability of it. It has been studied that in small businesses there are both economic and non-economic outcomes that affect the owner-managers attitudes towards growth (Wiklund, Davidsson and Delmar 2003). Furthermore, not only the goals, but the importance of them seem to direct owner-managers' attention and behaviour (Reijonen 2008). In this study we examine how two different kinds of growth goals, defined as capital adequacy and expansion growth, affect both market orientation and brand orientation which in empirical studies have shown to have a positive effect on firm performance (e.g. Pelham 2000; Megicks and Warnaby 2008; Wong and Merrilees 2008). Thus, we hypothesize:

*H1a: The importance of growth in capital adequacy has a positive effect on customer orientation*

*H1b: The importance of growth in capital adequacy has a positive effect on competitor orientation*

*H1c: The importance of growth in capital adequacy has a positive effect on interfunctional coordination*

*H2a: The importance of expansion growth willingness has a positive effect on customer orientation*

*H2b: The importance of expansion growth willingness has a positive effect on competitor orientation*

*H2c: The importance of expansion growth willingness has a positive effect on interfunctional coordination*

*H3: The importance of growth in capital adequacy has a positive effect on brand orientation*

*H4: The importance of expansion growth willingness has a positive effect on brand orientation*

In the process of brand management firms should actively monitor the needs and preferences of different stakeholders as well as the different strengths and weaknesses of competitors. Together with company's internal strategy and vision this information is used to create brand values which are delivered to the organization and its different stakeholders. Thus, the elements of market orientation, namely customer orientation, competitor orientation and interfunctional coordination are well presented in the process of brand based value creation. Both concepts (market orientation and brand orientation) may be regarded as marketing related ways to pursue competitive advantage in the markets and with different interest groups. Firms, on the other hand, should recognize the need for market based knowledge as well as the importance to utilize this knowledge in order to create added value through branding.

Even though market orientation and brand orientation are different concepts it has been suggested in the literature that brand orientation must be based on the foundation of market orientation and that brand orientation is the next step in the pursuit of competitive advantage (Urde 1999; Wong and Merrilees 2007). Also some recent empirical evidence about the positive relationship between market orientation and brand orientation exists (Tuominen *et al.* 2009; Laukkanen *et al.* 2010). Based on above mentioned, we argue that market orientation is an antecedent of brand orientation. Consequently, we hypothesize that the three components of market orientation have positive effects on brand orientation.

*H5: Customer orientation has a positive effect on brand orientation*

*H6: Competitor orientation has a positive effect on brand orientation*

*H7: Inter-functional coordination has a positive effect on brand orientation*

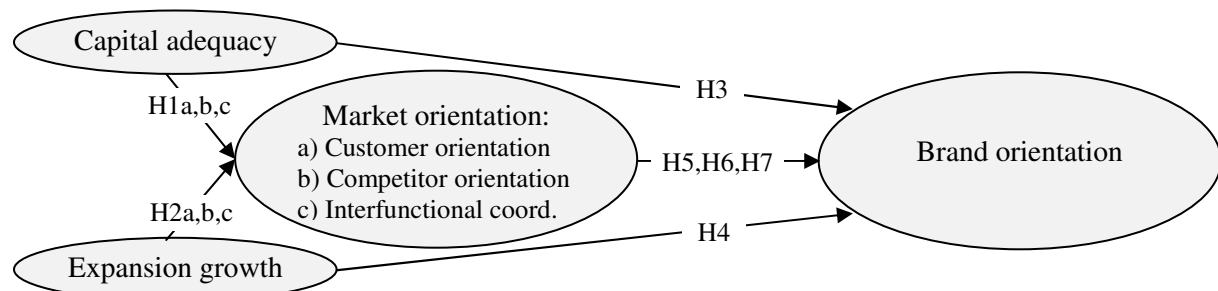


Figure 1: Conceptual model and hypotheses

## Data and methods

The data for this study was collected from SMEs in the North Karelian region of Finland. The contact information of the SMEs was obtained from a company register held by a local regional development company. From this register all those profit seeking SMEs were selected that operated in the region and had an e-mail address regardless of the field of industry or the market area they are operating. Thus, we sent an online questionnaire to 4502 SMEs. Altogether, 595 responses were gained, the response rate being 13 percent. Out of these responses, 492 with no missing values were included in the analysis.

Market and brand orientation constructs were assessed on a five-point Likert scale ranging from 1 (totally disagree) to 5 (totally agree). With regard to the growth willingness measures the respondents had to express how important the different goals related to the business growth and success were in their enterprises. The Likert scale was defined so that 1 referred to 'not at all important' and 5 meant 'very important'. Structural Equation Modeling (SEM) was used to test the hypothesized relationships between the constructs. Steenkamp and Baumgartner (2000) suggests that if there are several theory based indicators of a construct available, the usual procedure to assess the reliability and validity of the sets - before conducting SEM analysis - is to specify a confirmatory factor analysis model and investigate how well the multiple indicators capture the construct of interest.

## Analysis and results

A measurement model for all the constructs was estimated prior to estimating the structural model. Thus, we built a 6-construct measurement model by using Amos 16 software. The model fit indices confirmed that the model is appropriate. Moreover, the internal consistency

of the factors, measured with Cronbach's alpha, showed high correlations among the individual measure items of the factors, ranging from 0.787 to 0.966. Additionally construct reliability and average variance extracted were also counted. According to the literature (Hair et. al, 2010), the construct reliability should exceed 0.7. In our case these measures ranged from 0.773 to 0.950. For construct validity, the standardized factor loadings should be at least 0.5 and preferably above 0.7. As Appendix A illustrates, the loadings in all constructs were above the acceptable level. Finally, to assess discriminant validity of the model average variance extracted (AVE) for each construct was compared to the squared correlations between the constructs (Fornell and Larcker, 1981). The results of the measurement model support validity and reliability of the constructs and the model (Table 1).

Table 1: Correlation coefficient estimates of the measurement model

<i>Scale</i>	<i>Mean</i>	<i>SD</i>	1	2	3	4	5	6
1. Customer orientation	3.65	0.86	<b>0.552</b>					
2. Competitor orientation	2.60	1.03	0.329	<b>0.617</b>				
3. Inter-functional cooperation	2.90	1.10	0.454	0.529	<b>0.539</b>			
4. Brand orientation	3.27	1.17	0.438	0.298	0.396	<b>0.825</b>		
5. Capital adequacy	3.80	0.95	0.267	0.239	0.238	0.212	<b>0.63</b>	
6. Expansion growth	3.68	0.93	0.225	0.189	0.151	0.225	0.433	<b>0.598</b>
Cronbach's $\alpha$			0.889	0.918	0.882	0.966	0.787	0.873
Construct reliability			0.936	0.919	0.823	0.950	0.773	0.855

Goodness-of-fit statistics:  $\chi^2(260)=643.85$ ,  $p<0.001$ , GFI=0.91, AGFI=0.88, RMSEA=0.055, NFI=0.94, CFI=0.96

Note: AVE estimates are on the diagonal; squared correlations of the constructs are below the diagonal

The results of the structural equation model show that majority of the paths, except two, turned out to be significant. Thus, the basic idea that growth intention and market orientation would act as antecedents of brand orientation is supported in the model. The results confirm H1, namely capital adequacy has a positive effect on market orientation at all commonly used significance levels. Thus H1a ( $\beta=0.350$ ,  $p<0.001$ ), H1b ( $\beta=0.352$ ,  $p<0.001$ ) and H1c ( $\beta=0.374$ ,  $p<0.001$ ) are all significant. Results related to H2 give a similar result as all the three hypotheses are supported (H2a:  $\beta=0.322$ ,  $p<0.001$ , H2b:  $\beta=0.278$ ,  $p<0.001$ , H2c:  $\beta=0.219$ ,  $p<0.001$ ) suggesting that expansion growth intention has a positive effect on market orientation elements even though this effect seems to be slightly weaker than in the case of capital adequacy (Table 2).

Table 2: Standardized structural estimates of the structural model

<i>Path</i>			Standardized	t-value	p-value	
H1a	Capital adequacy	→	Customer orientation	0.350	6.373	p<0.001
H1b	Capital adequacy	→	Competitor orientation	0.352	6.592	p<0.001
H1c	Capital adequacy	→	Interfunctional coord.	0.374	6.711	p<0.001
H2a	Expansion growth	→	Customer orientation	0.322	6.558	p<0.001
H2b	Expansion growth	→	Competitor orientation	0.278	5.909	p<0.001
H2c	Expansion growth	→	Interfunctional coord.	0.219	4.559	p<0.001
H3	Capital adequacy	→	Brand orientation	0.004	0.097	p=0.923
H4	Expansion growth	→	Brand orientation	0.177	4.382	p<0.001
H5	Customer orientation	→	Brand orientation	0.358	6.335	p<0.001
H6	Competitor orientation	→	Brand orientation	0.070	1.227	p=0.220
H7	Interfunctional coord.	→	Brand orientation	0.271	4.091	p<0.001

Goodness-of-fit statistics:  $\chi^2(285)=873.55$ ,  $p<0.001$ , GFI=0.885, AGFI=0.858, RMSEA=0.065, NFI=0.913, CFI=0.940

Hypothesis H3 is rejected by the model, beta-value being  $\beta=0.004$  at the  $p=0.923$  significance level, H4 is supported ( $\beta=0.18$ ,  $p<0.001$ ), even though with a low level of beta-value. This

means that while capital adequacy does not have a direct positive effect on brand orientation, expansion growth does. The results support H5 ( $\beta=0.358$ ,  $p<0.001$ ) and H7 ( $\beta=0.271$ ,  $p<0.001$ ) meaning that customer orientation and interfunctional coordination have effects on brand orientation, but reject H6 ( $\beta=0.07$ ,  $p=0.220$ ) indicating that competitor orientation does not affect brand orientation.

## **Conclusions**

This paper contributes to the marketing literature in three different ways: first, it empirically examines the impact of growth willingness on the three elements of market orientation and brand orientation. Second, it empirically examines the impact of the three elements of market orientation on brand orientation, and third, it brings the context of SMEs into the discussion. The results of this study show that market orientation and brand orientation are related constructs so that customer orientation, followed by interfunctional coordination, has the strongest positive effect on brand orientation. However, the fact that competitor orientation does not affect brand orientation is contradictory to current understanding that brand building is to a great extent based on differentiation from competitors.

Two different sectors of growth willingness affect market orientation. Both capital adequacy and expansion growth have significant effect on the three different elements of market orientation. Capital adequacy does not, however, affect brand orientation, which contradicts the prevailing understanding that monetary resources are an important basis for brand building activities. The more funds are available to the firm, the more likely it is interested to invest in brand development. Expansion growth, however, has a significant effect on brand orientation. The study offers a good basis to study further the importance of brand orientation in growth orientated SMEs.

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## Appendix A: Standardized loadings of the measure items

<i>Measure items of the constructs</i>	<i>Stand. loadings</i>	<i>Literature source</i>
Customer orientation		Deng and Dart (1994);
V1 We have a strong commitment to our customers	0.728	Farrell, Oczkowski and
V2 We are always looking for new ways to create customer value in our products and services	0.813	Kharabsheh (2008);
V3 We encourage customer feedback because it help us do a better job	0.832	Gray et al. (1998);
V4 Our business objectives are driven by customer satisfaction	0.82	Narver and Slater (1990)
V5 We measure customer satisfaction on a regular basis	0.672	
V6 After-sales service is an important part of our business strategy	0.732	
Competitor orientation		Deng and Dart (1994);
V7 We regularly monitor our competitors' marketing efforts	0.863	Gray et al. (1998);
V8 We frequently collect data about our competitors to help support our marketing	0.863	Narver and Slater (1990)
V9 Our people are instructed to monitor and report on competitor activity	0.831	
V10 We respond rapidly to competitors' actions	0.835	
V11 Our top managers often discuss competitors' actions	0.779	
Inter-functional cooperation		Deng and Dart (1994);
V12 Market information is shared inside our organization	0.817	Gray et al. (1998);
V13 Persons in charge of different business operations are involved in preparing business plans/ strategies	0.812	Jaworski and Kohli (1993)
V14 We do a good job integrating the activities inside our organization	0.754	
V15 We regularly have inter-organizational meetings to discuss market trends and developments	0.848	
Brand orientation		Wong and Merrilees (2008)
V16 Branding is essential to our strategy	0.953	
V17 Branding flows through all our marketing activities	0.913	
V18 Branding is essential in running this company	0.942	
V19 The brand is important asset for us	0.936	
Capital adequacy		
V20 Increase in ROI (return on investment)	0.826	
V21 Increase in equity ratio	0.786	
Expansion growth		
V22 Increase in turnover	0.803	
V23 Expansion of market area	0.692	
V24 Increase in market share	0.909	
V25 Increase in the number of customers	0.776	